

DAVID Y. IGE
GOVERNOR

SHAN TSUTSUI
LT. GOVERNOR



STATE OF HAWAII
DEPARTMENT OF TAXATION
P.O. BOX 259
HONOLULU, HAWAII 96809
PHONE NO: (808) 587-1540
FAX NO: (808) 587-1560

MARIA E. ZIELINSKI
DIRECTOR OF TAXATION

To: The Honorable Sylvia Luke, Chair
and Members of the House Committee on Finance

Date: Wednesday, April 1, 2015
Time: 2:00 P.M.
Place: Conference Room 308, State Capitol

From: Maria E. Zielinski, Director
Department of Taxation

Re: S.B. 971, S.D. 1, H.D. 1, Relating to Taxation

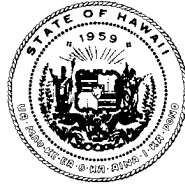
The Department of Taxation (Department) appreciates the intent of S.B. 971, S.D. 1, H.D. 1 and defers to the Hawaii Housing Finance and Development Corporation (HHFDC) on the merits of this bill. The following comments are provided for your consideration.

S.B. 971, S.D. 1, H.D. 1 requires that certain eligible housing projects remain affordable for set minimum periods of time in order for a taxpayer to be certified as exempt from the General Excise Tax (GET). The measure applies to projects with an initial certification date after June 30, 2014 and has a defective effective date of July 1, 2050.

This measure requires that eligible housing projects remain affordable for set periods of time in order for the exemption from general excise taxes to be effective. For moderate rehabilitation projects, a minimum term of five years from the date specified in a regulatory agreement is required. For substantial rehabilitation projects, a minimum term of ten years from the date specified in a regulatory agreement is required. Newly constructed projects must remain affordable for thirty years from the date of issuance of the certificate of occupancy, rather than thirty years from the date as set forth in the regulatory agreement, since new construction requires substantial time for completion and use of the date as set forth in the regulatory agreement would cause the actual period required to fall substantially short of thirty years.

Under section 201H-36, Hawaii Revised Statutes, HHFDC certifies that a housing project is entitled to the GET exemption, and upon such certification, a taxpayer is entitled to claim the GET exemption. As the regulatory agreements and the determination of whether a taxpayer is eligible for the exemption remain with HHFDC, this measure will not have a substantial administrative impact on the Department.

Thank you for the opportunity to provide comments.



STATE OF HAWAII

DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT AND TOURISM
HAWAII HOUSING FINANCE AND DEVELOPMENT CORPORATION
677 QUEEN STREET, SUITE 300
Honolulu, Hawaii 96813
FAX: (808) 587-0600

IN REPLY REFER TO:

Statement of
Craig K. Hirai
Hawaii Housing Finance and Development Corporation
Before the

HOUSE COMMITTEE ON FINANCE

April 1, 2015 at 2:00 p.m.
State Capitol, Room 308

In consideration of
S.B. 971, S.D. 1, H.D. 1
RELATING TO TAXATION.

HHFDC supports S.B. 971, S.D. 1, H.D. 1. This bill is substantially similar to H.B. 906, H.D. 1, an Administration bill previously heard by this Committee.

Presently, there is no minimum statutory affordability term required of rental projects under Section 201H-36, Hawaii Revised Statutes. Most rental projects are developed with assistance from HHFDC in the form of financing assistance, 201H exemptions, or the provision of land, and are thereby subject to regulatory agreements which dictate the level and terms of affordability. However, there may be projects that are constructed without governmental assistance that seek GET exemptions from HHFDC for construction.

S.B. 971, S.D. 1, H.D. 1 would clarify that affordable rental projects must remain affordable for specified minimum periods of time, as follows:

- For moderate rehabilitation, five years;
- For substantial rehabilitation, ten years; and
- For new construction, thirty years.

This would ensure that any improvements to the project that are exempted from GET will accrue to the benefit of lower income households for a reasonable period of time.

Thank you for the opportunity to testify.

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: GENERAL EXCISE, Rental housing project qualifications for tax exemption

BILL NUMBER: SB 971, HD-1

INTRODUCED BY: House Committee on Housing

EXECUTIVE SUMMARY: Requires a rental housing project with a general excise tax exemption to enter into a regulatory agreement with the Hawaii housing finance and development corporation (HHFDC) to qualify for the tax exemption. Establishes terms for the agreements for each type of project.

BRIEF SUMMARY: Amends HRS section 210H-36 to require a rental housing project with a general excise tax exemption to enter into a regulatory agreement with the HHFDC as a qualification for the tax exemption as follows: (1) for moderate rehabilitation projects, a minimum term of five years; (2) for substantial rehabilitation projects, a minimum term of ten years; and (3) for new construction projects, a minimum term of thirty years from the date of the certificate of occupancy.

EFFECTIVE DATE: July 1, 2050; applicable to projects initially certified after June 30, 2014

STAFF COMMENTS: This measure would add more qualifications for each rental housing project to ensure such projects are in compliance in order to continue to receive a general excise tax exemption under HRS section 237-29.

As amended by the Senate Human Services and Housing Committee, the current bill has the same contents as the Administration bill BED-09(15) that was introduced as SB 1075/HB 906.

Digested 3/30/15